



Title: **Innovation Centre 3rd phase**
Public Agenda Item: **Yes**
Wards Affected: **Blatchcombe**
To: **Adjourned Annual Council** On: **16 May 2012**
Key Decision: **Yes**
Change to Budget: **Yes** Change to Policy Framework: **No**
Contact Officer: **Alan Denby**
Telephone: **01803 208671**
E.mail: **Alan.denby@tedcltd.com**

1. What we are trying to achieve and the impact on our customers

- 1.1 This report is seeking to promote sympathetic economic regeneration for Torbay by building a new innovation centre at Whiterock Business Park, Paignton creating 30,000 square feet of new workspace for businesses. In delivering this project an estimated 220 gross new jobs will be created with additional value to the local economy in excess of £2 million per annum.
- 1.2 Specific Community Plan indicators that the project will contribute to include;
- Increase value and improve economic performance of key sectors
 - Encourage appropriate and sympathetic diversification of the economic base
 - Provide business and infrastructure support for economic growth and job creation

2. Recommendation(s) for decision

Decisions for Council

- 2.1 That, in principle, the Council supports the development at White Rock Business Park, Paignton to enable the delivery of the third site of the Innovation Centre Programme, using up to £2.5 million of funds. These funds to comprise of up to £500,000 of New Growth Points grant allocated to the project and the balance will be funded from prudential borrowing. Initial funding to be met from internal funds in line with the Treasury Management Strategy approved by Council.
- 2.2 That the Council submits an application to the EU Competiveness programme for a further £2.5 million grant.

The Mayor be Recommended to:

- 2.3 That subject to satisfactory terms being agreed, the Council enters into a land swap with Deeley Freed. The Council to transfer the PLUS site at Whiterock in return for the transfer of Deeley Freed's site fronting onto Brixham Road.
- 2.4 That the Council retains the freehold of the site on which the new innovation centre is to be built but leases it to the Torbay Economic Development Company Limited. The length and terms of the lease to be delegated to the Chief Executive in consultation with the Mayor, the Executive Lead for Finance and Audit and the Chief Executive of the Torbay Economic Development Company.

3. Key points and reasons for recommendations

- 3.1 The recommendations in this report ask that the Council provides £2.5m of funds to deliver the third phase of the Innovation Centre project which is estimated to cost £5 million. The scheme will provide, at the Whiterock Business Park, a building of 30,000 square feet with 23,500 square feet of lettable space. The space will create and sustain an estimated 220 jobs and an additional £2m per year of economic benefits to Torbay.
- 3.2 The existing Innovation Centre sites at Vantage Point (Paignton) and Lymington Road (Torquay) cover approximately 13,000 square feet and provide space to 42 businesses. In the past year 80 jobs have been created and since the centres began operating in 2006 this number is over 300 jobs. The occupancy rate for the centres is in excess of 85% which exceeds the expected level for this type of facility.
- 3.3 The site and building would be leased to the Torbay Economic Development Company Ltd (TEDC). The detailed business plan for the project will be considered by the board before the end of July and presented to the Council. The company would pay an annual charge that would cover the Council's borrowing and repayment costs of borrowing, estimated at £70,000 per million.
- 3.4 Torbay is an eligible area for European Regional Development Fund under the current EU Competitiveness programme. Approval of these recommendations will see the TEDC prepare a grant application on the Council's behalf. If approved this would bring a grant of £2.5M in support of the scheme to be matched by the New Growth Points grant and borrowing. The initial funding will be from internal funds in line with the treasury management strategy approved by Council.
- 3.5 Should the grant application not be approved then the proposal will not proceed and a further report would be brought to Council to consider any alternative options.
- 3.6 The extent of support for start up businesses will create a pipeline of demand that will be attracted to space offered through the Innovation Centres. This will be complemented by an active inward investment programme. This third phase will also provide growth on space for tenants and high quality space particularly for businesses in the following sectors;
 - Electronics & photonics
 - Creative sectors

- Medical technologies
 - Professional & financial services
- 3.7 The award of funding to the South Devon Link Road and the evidence that was presented to Government on the economic benefits to Torbay means it is important that the Council continues its strong commitment to economic growth.
- 3.8 The planning process for the Whiterock Business Park site highlighted community wishes to ensure that the development was employment led. The Council, as planning authority, has taken steps to ensure that the developer provides workspace and these recommendations complement that so that the scheme represents employment led regeneration.
- 3.9 The recommendations support the Council's aspiration for sympathetic regeneration and the project will widen opportunities and provide high quality employment which in turn retains our young people in the Bay.
- 3.10 The need for sympathetic economic regeneration is supported by a host of statistics and national indicators such as on productivity, wage levels, child poverty, jobseekers allowance and business growth. The opportunity here relates to supporting the strong high value sectors in Torbay which include professional and financial services, electronics and creative businesses.
- 3.11 The project will help to improve Torbay's economic performance. In turn this improvement to economic performance will reduce child poverty, reduce the cost of deprivation to the public sector, improve job opportunities and encourage our young people to remain in the Bay. Specific community plan indicators that the project will contribute to include;
- Increase value and improve economic performance of key sectors
 - Encourage appropriate and sympathetic diversification of the economic base
 - Provide business and infrastructure support for economic growth and job creation

For more detailed information on this proposal please refer to the supporting information attached.

Steve Parrock
Chief Executive Torbay Economic Development Company Ltd

Supporting information to Report

A1. Introduction and history

A1.1 The Torbay Economic Development Company (TEDC) operates two Innovation Centres through the South West Innovation Centres banner. It also manages the Cockington Court Craft Centre and the Watermark Centre in Ivybridge.

The concept of the innovation centre is to nurture small companies and help them grow, creating and sustaining new wealth and employment for local economies. The creation and growth of small businesses is a strong indicator of an entrepreneurial culture in a place. It is likely to result in additional jobs growth in future years as economies with many small growing businesses demonstrating consistent jobs growth over economies dominated by large employers.¹

There some 4,600 VAT/PAYE registered businesses in Torbay. On an annual basis new start businesses equate to between 8-10% of that VAT number meaning that there are 350-450 new businesses starting in Torbay each year. This is a real asset for Torbay to build on and is in part driven by the strong performance of Outset Torbay² as they deliver the European funded start up business advice and the delivery by the TEDC of the new enterprise allowance programme which has seen 47 clients since summer 2011. The EU funded enterprise coaching and intensive start up support activities will be delivered until 2014 under the current programme. This complements the programme for this project.

The TEDC works with a number of partners to provide flexible and low-cost business premises and access to a range of support services. Studies prove that this is a combination which substantially increases new business survival rates. The TEDC currently manage Centres in:

- Paignton - Opened in November 2006, this Centre operates from a self contained suite of offices on the Ground Floor of the outstanding £28m South Devon College. Torbay Council through the Torbay Development Agency spearheaded the establishment of the business units, and obtained funding from the SWRDA, match-funded by the Government Office South West through the European Objective 2 scheme.
- Torquay - Launched in November 2008, this Innovation Centre operates from a purpose-built complex close to the heart of Torquay. Torbay Development Agency secured funding of £1.5m from the SWRDA to enable the new centre to be constructed. Another £600,000 came from the Government Office South West through the European Objective 2 scheme. Additional finances were made available from the Single Regeneration Budget and Torbay Council.

¹ This is borne out by data from Business, Innovation & Skills and supported by the Harvard Business Review & Kauffman Foundation

² Delivered by Outset Torbay and reported to have seen over 560 individuals start the Outset programme

The original business case set out an overall requirement for a minimum area of 30,000 square feet in order to generate the rental income to cover the support costs. For a number of reasons, principally related to the availability of funding and decisions made by partners, the sites which came forward at Vantage Point and Lymington Road do not provide the quantum of space to allow the centres to operate optimally.

The two centres give a total of around 12,000 sq ft and therefore the centres while full are not delivering the full benefits that a larger centre would. They also have a higher level of overhead than originally envisaged. The third phase innovation centre is therefore critical to the overall business plan.

The existing sites have delivered consistently high occupancy notwithstanding the occasional fluctuations in the challenging economic climate. Occupancy rates have been over 90% for much of the period of operation giving confidence in the ability of the TEDC to let a greater amount of space. They have also delivered against the predicted outputs required by the funders and are acknowledged as a success.

This proposal for the third site, which would be located at Whiterock Business Park as part of the recently consented development, capitalises on that success. The Whiterock Business Park is estimated to create over 1200 jobs. The White Rock scheme includes 350 new homes, a 36,800m² industrial estate, a supermarket, student accommodation as well as sports facilities, new roads and 15 hectares of landscaped open space.

This report would enable a 30,000 square foot Innovation Centre with dominant road presence as part of the Whiterock Business Park. Negotiations on a site have begun. The site is part of the Whiterock outline planning application area the innovation centre site is part of the district centre at the front of the site and proposed neighbours include a food store, motel and pub. It would be adjacent to the South Devon College Energy Centre which is offering pre start up and incubation space for those thinking about starting a business and is therefore well positioned to capitalise on those links.

Part of the outline planning process has established a footprint and indicative floor plans and elevations for the building. The TEDC propose a scheme that fills the identified footprint and should be around 30,000 square feet. This would result in around 23-25,000 sq ft net lettable space. It is expected that the design of the building will provide a mix of accommodation types ranging from fully serviced office units, in multiples of 25 sq m (net) nominal size, to light industrial units in multiples of 50sq m net nominal size, to cater for businesses in fields such as health, science and technology.

Costs & Funding

The costs of the Innovation Centre have been estimated at £5m. This is in part shaped by the likely available capital funding which is as follows;

- Up to £2,500,000 from Torbay Council comprising up to £500,000 of New Growth Points grant funding with the balance coming from prudential borrowing
- £2,500,000 from the EU Competitiveness programme 2007-13 offering match at 50%
- TEDC will continue to seek to identify other funding options that might come forward and reduce the funding requirement for Torbay Council.

Assuming 23,000 of lettable space and an average rent of £20 per square foot (this is lower than rents achieved at Vantage Point & Lymington Road) the maximum rental roll would be £460,000. Financial projections for the centre demonstrate that occupancy of 72% allows for breakeven and levels above that deliver a surplus. The projections below are deliberately conservative on occupancy rates but provide an indication of the occupancy and associated income that could be expected.

| | 2013/14 | 2014/15 | 2015/2016 | 2016/2017 | 2017/2018 |
|---------------|----------------|-----------------|------------------|------------------|------------------|
| Occupancy | 15% | 40% | 60% | 70% | 80% |
| Income | £71,124 | £189,560 | £283,794 | £331,063 | £385,893 |

Experience of the other centres has been that occupancy rates have been higher than expected and the TEDC is confident of being able to deliver to this model. This confidence is based on track record but also the marketing that will be undertaken by Deeley Freed for Whiterock, the wider inward investment promotion for Torbay which is seeing enquiries for space that currently cannot be met and the demand forecast to be generated by the South Devon Link Road which is expected to result in over 3,000 new jobs for Torbay.

With regard to the EU Competitiveness funding the SW Regional Development Agency allocated £5m for activities in Torbay in support of starting up businesses and social enterprises. Currently Torbay stands to receive approximately £4.5 million from the allocation. Should the recommendations in this report be accepted then a bid for £2.5 million will be made to the programme and is considered to have a strong probability of success and will see Torbay receive a sum in excess of its original allocation.

The Deal – Whiterock

Provisional terms have been agreed with Deeley Freed on behalf of Abacus for a straight swap of their land (4230 square metres) for the Council building currently occupied by PLUS Ltd (4091 square metres). Both land areas are very similar. The proposed site for the innovation Centre has Brixham Road frontage and will be a very visible building sitting next to the new Premier Inn. The proposed site has a minded to grant outline planning approval for 30,000 square feet of office space. This site is an ideal location for the Innovation Centre and is well located to fill, the immediate frontage of the Business Park and also close to the

proposed energy centre to be developed by South Devon College. The estimated value of the site is around £500,000 given comparable information provided by the developer. The market value would likely be a little lower given current office rents. The detailed business case will consider all tax implications from this transaction.

PLUS – Site & Loan issues

This building has an estimated value of around £450,000 although this is to be tested externally and valued by the District Valuer to confirm and this will be in place before committing to contract. The deal is a straight swap. There will be an obligation to sell the (swapped) site back to Abacus within 2 years if funding is not secured. The price to be paid will be market value at the time of the transaction. This is a good mechanism and a way by which the Council can extract market value quickly should a funding package for the innovation centre not be secured.

PLUS has been occupying Council premises at Waddeton Close, Whiterock for some time, providing supported employment services to adults with learning disabilities. The Council owns 25% of the PLUS company. PLUS supports thousands of disabled people each year to achieve work and a career. The Council's funding for supported employment and contract with PLUS has been renegotiated and the premises will be vacated before the end of this year.

The other issue to be addressed with the PLUS building is that a loan was received by Devon County Council, with the Council inheriting the liability for, along with the site in 1998 for improvement and refurbishment works. It is likely that a repayment of up to 75% of the market value of the PLUS site will be required to the Department of Work & Pensions, however confirmation of the amount that will be required is being sought. This sum will need to form part of the business case.

The Deal – Contingency

There are a number of risks in regard to the deal aspect alone. TEDC intend to seek a detailed planning permission at the PLUS building as well. TEDC will aim to exchange contracts as soon as the Council has given the authority to proceed. The exchange will be conditional on PLUS vacating the property.

Programme

It is anticipated that TEDC will be applying for detailed planning permission in June, securing the funding in July and starting on site in December 2012 with Practical Completion in December 2013.

Benefits

It is estimated that there would be economic benefits in the order of 227 gross new jobs, around 145 net new jobs and a gross value added to the local economy of over £2 million per annum. Over the economic life, which is modelled using Government appraisal guidance, of the project the benefits are estimated at over £20M providing a cost benefit ratio for the scheme of 4:1.

Delivery of the business growth programme will therefore respond to strategic direction from Torbay and market opportunities. It is expected that delivery of the programme will achieve the following benefits for Torbay

- Improved business survival and growth rates
- Improved public finances
- Increased employment
- Increased demand for business growth services
- Increased awareness of finance, export and innovation measures

A2. Risk assessment of preferred option

A2.1 Outline of significant key risks

A2.1.1 That demand for space has been overinflated – this is considered to be low risk based on the occupancy rates experienced at other sites, the sustained demand reported through property enquiries dealt with by the TEDC, the continued delivery of the inward investment campaign, the business start up programme and the forthcoming commencement of the South Devon Link Road.

That the running costs exceed income – the business case for the proposal has been tested against historical charges and income from existing TEDC sites and other costs have been checked to ensure accuracy. This is a moderate risk with low probability but major consequences. The business case makes conservative predictions about the rental level that would be attainable and about the occupancy rates assuming full occupancy in year 3-4, historical performance has been in excess of this.

To mitigate this risk a detailed business plan will be submitted to the Chief Executive and the TEDC board prior to the project starting to ensure the business case is robust and the TEDC can afford to repay the Council funding.

That planning consent is not received – preliminary discussions have been held with Planning Officers to understand the issues that might prevent a positive recommendation for approval. The in principle consent for the overarching Business Park scheme means this is low risk.

That the funding application for ERDF grant is unsuccessful – extensive discussions have taken place with programme officials to brief them of the project and to gain an understanding of their likely support. Presently those officials are concerned about match funding and planning permission, approving this report will satisfy one of those concerns. It is currently a high risk and would drop to low if the recommendations here are accepted.

A2.2 Remaining risks

A2.2.1 None

A3. Other Options

A3.1 Take no action – this would result in the current position being maintained with regard to space for growing businesses. It would not be consistent with the Council's aspirations for sympathetic regeneration and jobs led growth.

To seek a smaller site – Seeking a site of 10-15,000 square feet. This would have a marginal impact on the overall performance of the Innovation Centres because one of the principal issues is the overall quantum of space, there would be limited benefit and support to the growing numbers of small businesses that are seeking space.

To seek alternative funding options – Regional Growth Fund was bid for in the summer of 2011 to bring the scheme forward however the bid failed to gain support. The abolition of the Regional Development Agency has meant that the Growth Fund is the only UK government fund to support local and regional economic growth.

A4. Summary of resource implications

A4.1 Borrowing of £2m is assumed to cost £140,000 at £70,000 per million. The Council would not be expected to bare any additional costs as a result of this report however with the TEDC making a payment to the Council to cover the annual borrowing costs. In the event that the TEDC was unable to sustain the payment or ceased to exist by retaining the freehold the Council would retain security over its investment.

A4.2 There will be business rate benefits to the Council from the space. While these have yet to be confirmed the project has an assumed opening date of spring 2014 and a three year period before the space is full. At that point business rates, estimated at £90-110,000 per annum, will make a positive contribution towards the Council increasing the amount of business rates collected locally.

A5. What impact will there be on equalities, environmental sustainability and crime and disorder?

A5.1 There will be no negative impacts for equalities and crime & disorder as a result of this report being taken forward. The project is expected to contribute to the growth of businesses and increasing demand for employment which in turn will have a positive impact on equalities in line with other Council and TDA activities to support people gaining employment.

A5.2 The scheme will be designed using appropriate BRE Environmental Assessment Method targets to ensure that the project has a minimal impact on the quality of the local environment.

A6. Consultation and Customer Focus

A6.1 Demand for the kind of space and business support proposed has been highlighted through the regular Business Barometer survey. 89% of businesses questioned identified the need for improved business performance as a priority for Torbay. The Innovation Centre and business support which goes with it are essential in delivering this.

A6.2 The support currently available is valued by businesses, further highlighting that they would see an extension of this as a positive step. When asked what their overall impression was of Torbay as a place to do business responses included: "I have received good business support from the Torbay Development Agency" and "Outset Torbay is a very effective agency and helps business start-ups

which is very useful for my clients”

A7. Are there any implications for other Business Units?

A7.1 There will be an impact on Financial services through the borrowing that will be required for the scheme.

Appendices

None

Documents available in members’ rooms

None

Background Papers:

The following documents/files were used to compile this report:

TEDC Business Plan 2011
Torbay Economic Strategy
Torbay Community Plan